

Environmental and Public Protection

Insurance

	Revised FY 2006	Requested FY 2007	Requested FY 2008	Recommended FY 2007	Recommended FY 2008
SOURCE OF FUNDS					
General Fund					
Regular Appropriation				6,500,000	13,500,000
Total General Fund				6,500,000	13,500,000
Tobacco Settlement-Phase I					
Tobacco Settlement - I	16,751,700			13,692,700	14,496,000
Budget Reduction	-1,139,100				
Total Tobacco Settlement-Phase I	15,612,600			13,692,700	14,496,000
Restricted Funds					
Balance Forward	15,814,900	23,719,900	33,335,200	3,081,400	2,906,400
Current Receipts	29,947,200	32,446,900	34,942,800	31,188,000	33,445,100
Non-Revenue Receipts	-797,100	1,926,400	1,715,700	-319,200	-425,900
Fund Transfers	-20,000,000			-9,000,000	-10,750,000
Total Restricted Funds	24,965,000	58,093,200	69,993,700	24,950,200	25,175,600
TOTAL SOURCE OF FUNDS	40,577,600	58,093,200	69,993,700	45,142,900	53,171,600
EXPENDITURES BY CLASS					
Personnel Cost	33,817,700	37,708,800	38,476,100	32,013,600	32,985,200
Operating Expenses	3,678,500	3,800,900	3,868,000	3,722,900	3,761,000
Grants, Loans or Benefits				6,500,000	13,500,000
TOTAL EXPENDITURES	37,496,200	41,509,700	42,344,100	42,236,500	50,246,200
EXPENDITURES BY FUND SOURCE					
General Fund		16,751,700	16,751,700	6,500,000	13,500,000
Tobacco Settlement-Phase I	15,612,600			13,692,700	14,496,000
Restricted Funds	21,883,600	24,758,000	25,592,400	22,043,800	22,250,200
TOTAL EXPENDITURES	37,496,200	41,509,700	42,344,100	42,236,500	50,246,200
EXPENDITURES BY UNIT					
Executive Director	1,344,300	1,716,400	1,793,400	1,449,400	1,465,800
Small Business Insurance Subsidy				6,500,000	13,500,000
General Administration and Support	3,031,300	2,619,300	2,728,200	2,267,600	2,282,100
Property and Casualty	827,100	1,146,300	1,204,000	917,600	934,900
Life Insurance	742,100	958,500	999,600	764,000	781,700
Financial Standards and Examination	4,034,800	4,362,300	4,419,000	4,100,300	4,116,600
General Counsel	278,300	278,300	278,300	278,300	278,300
Agent Licensing	1,654,400	2,174,700	2,275,100	1,789,900	1,808,500
Consumer Protection	2,183,600	2,636,500	2,760,800	2,274,100	2,305,800
Insurance Fraud Investigation	1,200,600	1,467,300	1,541,000	1,321,900	1,353,800
Health Insurance Policy and Managed Care	2,289,600	2,792,600	2,920,100	2,469,500	2,499,100
Mine Subsidence Program	203,700	260,800	266,700	251,200	251,800
State Risk and Insurance Services	694,800	914,400	959,000	761,500	773,500
Kentucky Access Program	19,011,600	20,182,300	20,198,900	17,091,200	17,894,300
TOTAL EXPENDITURES	37,496,200	41,509,700	42,344,100	42,236,500	50,246,200

The Office of Insurance, pursuant to KRS Chapter 304, has the authority to license, supervise, and regulate insurance companies doing business in Kentucky.

The Executive Director is responsible for the overall policy, planning, direction, and management of all divisions within the Office. It is the responsibility of the director to oversee the manner in which the business of insurance is conducted in Kentucky. The director is charged with protecting the public interest, promoting viable markets, and assuring fair treatment of insurance consumers.

The Property and Casualty Division regulates coverage and marketing practices of property and casualty insurers. Through its annual review of property and casualty insurance rate and form filings, the Division ensures that companies comply with the standards set forth in the Kentucky Insurance Code. The Division is also responsible for reporting medical malpractice claims, recording of no-fault rejections (tort liability), and verifying such rejection. It is responsible for the regulation of surplus lines insurance.

The Health Insurance Policy and Managed Care Division regulate admitted insurance companies and Health Maintenance Organizations (HMO). The Division approves policies, certificates, provider networks, quality improvement programs, and rate filings. It reviews promotional literature and activities for the protection of the public. The Division handles inquiries about Medicare and long-term care insurance.

The Life Insurance Division regulates insurance companies selling life and disability income products. It is responsible for conducting research on strategies related to financial services modernization. The Division reviews policies, certificates, and rate filings.

The Financial Standards and Examination Division protects consumers by ensuring the financial solvency of insurers authorized to do business in Kentucky. The Division is responsible for conducting financial examinations, financial analyses, and providing administrative oversight of the insurance industry.

The Insurance Fraud Investigation Division is the Office's enforcement unit empowered to conduct criminal investigations of suspected fraudulent insurance acts. Insurance-related fraud may be committed by applicants for insurance, policyholders, third party claimants, agents, and providers of services who are paid by insurance.

The Agent Licensing Division makes certain that only knowledgeable and qualified insurance representatives sell insurance products to Kentucky consumers. The Division administers examinations, monitors continuing education courses, and licenses agents.

The Consumer Protection and Education Division is the main link between the Office and the citizens of the Commonwealth. The Division also administers the emergency response program, which provides on-site assistance to citizens or communities affected by insured disasters within the Commonwealth. An ombudsman provides additional assistance to consumers. The Market Conduct unit of Consumer Protection observes and analyzes the business practices of insurers.

The State Risk and Insurance Services Division administer the State Fire and Tornado Insurance Fund pursuant to KRS 56.070 to 56.180. It provides self-insurance for the Commonwealth's state- and university-owned real and personal property. The Division resembles an insurance company and has its own brokers and agents. It develops and maintains coverage forms, makes decisions where a particular submission should be insured, determines rates, issues certificates and endorsements, and collects premiums. The Division establishes the replacement value of all insured real property and adjusts, negotiates, and settles claims. Because all risks cannot be properly covered under the State Fire and Tornado Insurance Fund, the Division assists in the placement of various types of property and liability exposures through the commercial market. The Division provides assistance to property owners who have experienced property damage resulting from collapsed underground mines through the Mine Subsidence Fund.

Kentucky Access, Kentucky's high-risk health insurance pool, was created by the 2000 General Assembly. It is a statewide health plan that offers health insurance to Kentuckians who have sufficient disposable income to afford health insurance premiums, but cannot obtain individual health insurance in the private market. The Office of Insurance has the statutory responsibility to operate and administer the Kentucky Access program. The responsibility is met through a contractual relationship between the Office and a third party administrator. The program is funded from three revenue sources: premiums paid by policyholders, assessments of all health insurance carriers in the state, and an appropriation of the state's Master Settlement Agreement proceeds (Phase I Tobacco funds) from the Kentucky Health Care Improvement Fund.

Policy

Notwithstanding KRS 304.2-300(4), KRS 304.2-400(2), and KRS 304.2-440(4), the Office of Insurance shall transfer Restricted Funds of \$8,659,700 in fiscal year 2006, \$9,000,000 in fiscal year 2007, and \$10,750,000 in fiscal year 2008 to the General Fund.

The Governor's recommended budget includes General Fund appropriations of \$6,500,000 in fiscal year 2007 and \$13,500,000 in fiscal year 2008 to fund a Small Business Health Insurance Subsidy pilot program. Eligible businesses can have no fewer than two but no more than 25 employees. Average salaries (excluding the owner) shall not exceed 200

percent of the federal poverty level. The employer cannot have provided health insurance benefits during the last 12 months or must have at least one member of the group identified as having a defined high-cost medical condition. Participating businesses will receive an immediate, fixed, monthly reimbursement of \$40-\$60 for each employee. The subsidy will decrease over four years.